

# **The Mexican Economy: Recent Performance and Future Directions**

By

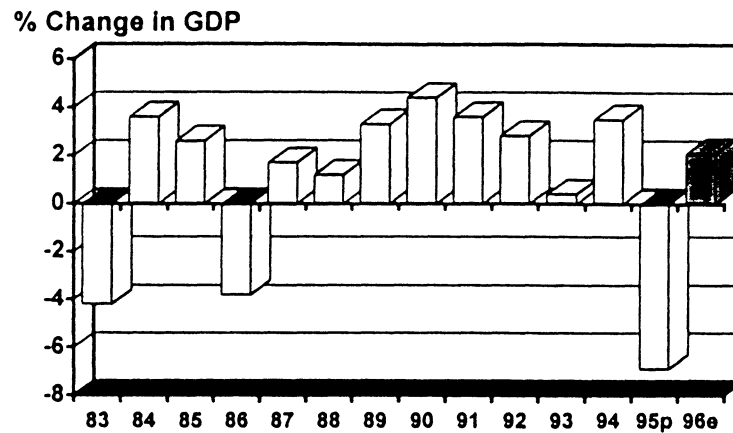
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Prepared for  
Agribusiness Executive Development Seminar  
Indianapolis, Indiana  
October 24-25, 1996

### **Key Indicators of Recent Economic Performance in Mexico**

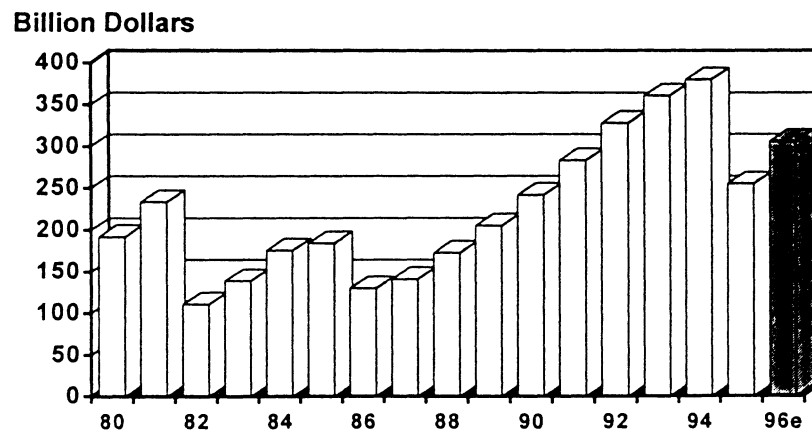
- ◆ Unstable Growth and Recent Crisis
  - ◆ Expansionary Monetary and Fiscal Policy
  - ◆ High Inflation Rates Compared to the U.S.
  - ◆ Over-Valued Exchange Rate and Major De-valuations
  - ◆ Positive Trade Balance Changing to a Deficit Balance
  - ◆ Declining Real Wages and Salaries
  - ◆ High Nominal Interest Rates
  - ◆ Increasing Overdue Loans & Commercial Bank Crisis
  - ◆ Large Foreign Public and Private Debt & Plans for Repayment
  - ◆ Agricultural Sector Trade and Competitiveness
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# Annual Economic Growth



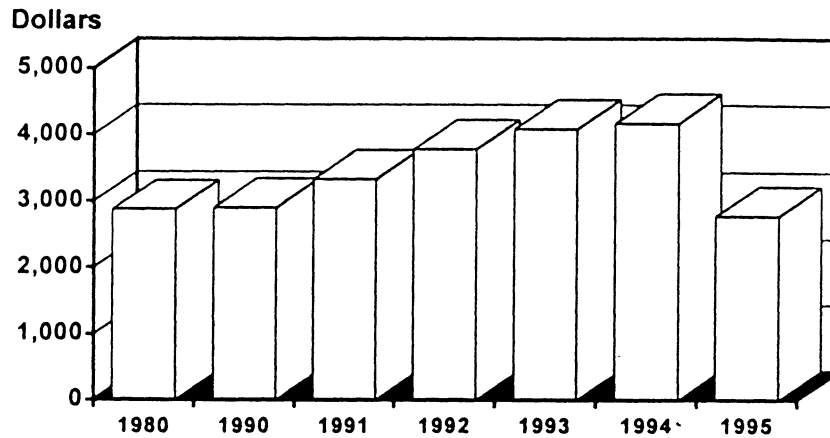
Source: International Financial Statistics

# Gross Domestic Product (GDP)



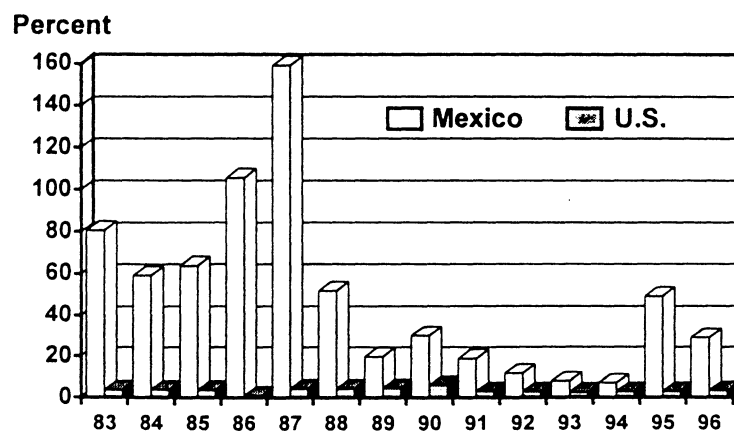
Source: International Financial Statistics

## Per Capita Income



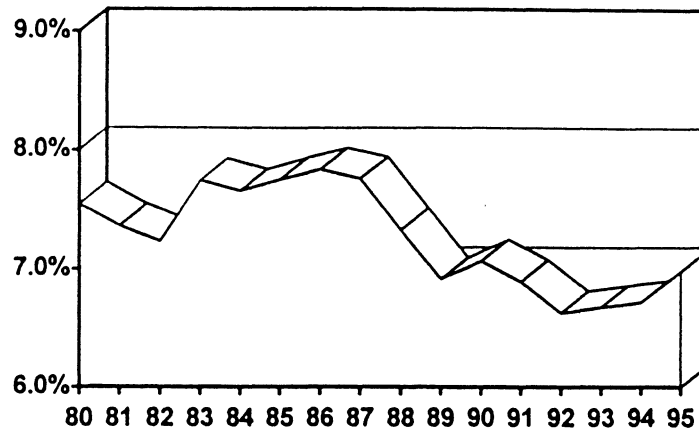
Source: International Financial Statistics

## Inflation in Mexico and the U.S.



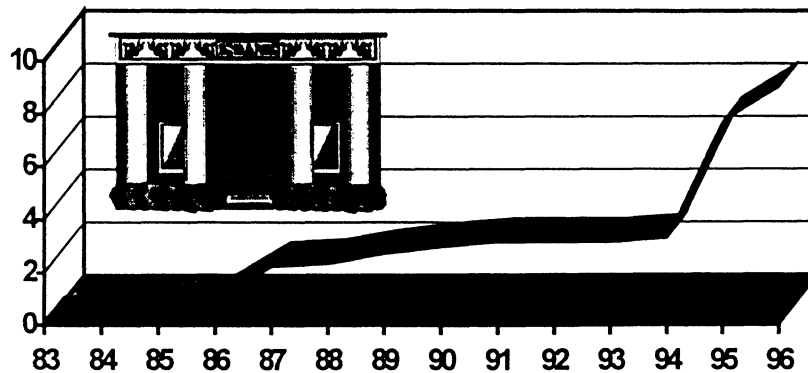
Source: International Financial Statistics

## Agriculture's Share of the Economy (Percentage)



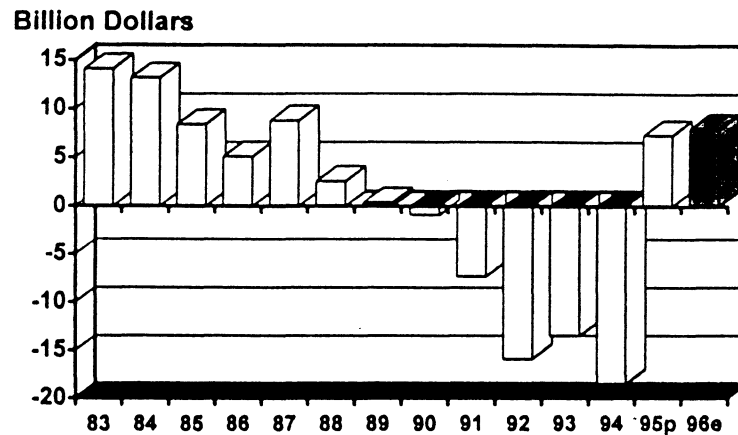
Source: International Financial Statistics

## Exchange Rate: Mexican Pesos Per U.S. Dollar



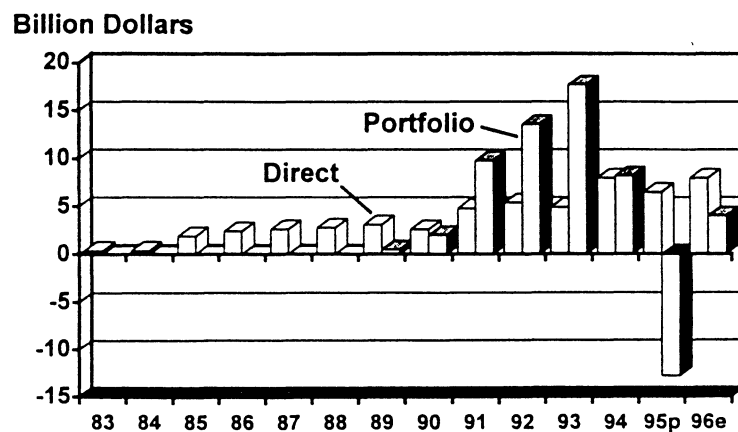
Source: Shwedel

# Mexico's Trade Balance



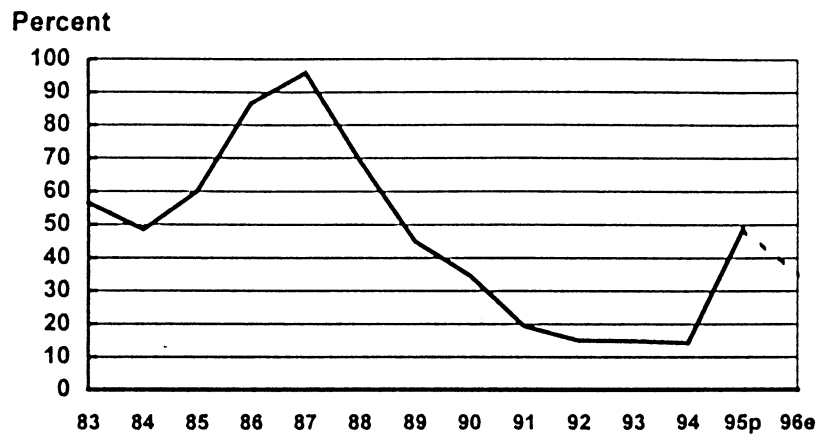
Source: International Financial Statistics and Shwedel

# Foreign Investment in Mexico



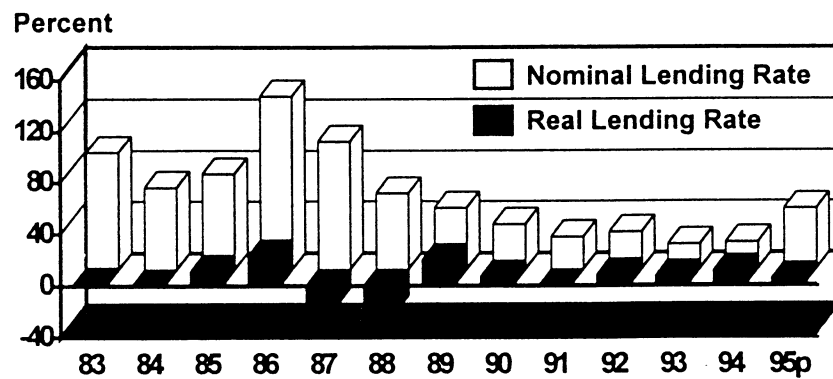
Source: International Financial Statistics and Shwedel

## Average Rate for 28 Day Cete



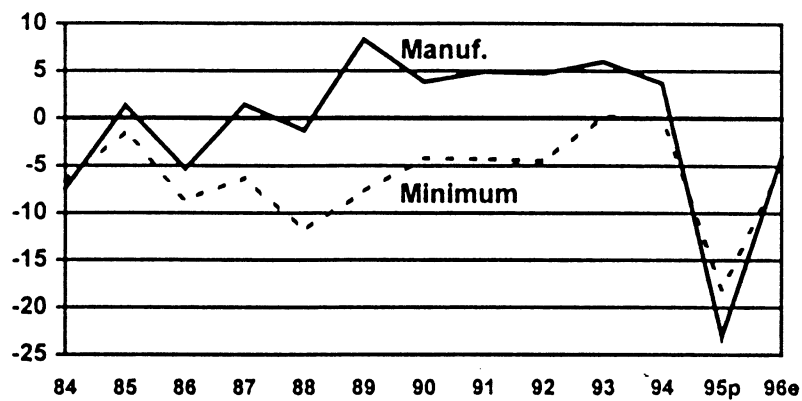
Source: Shwedel

## Nominal and Real Lending Rates in Mexico



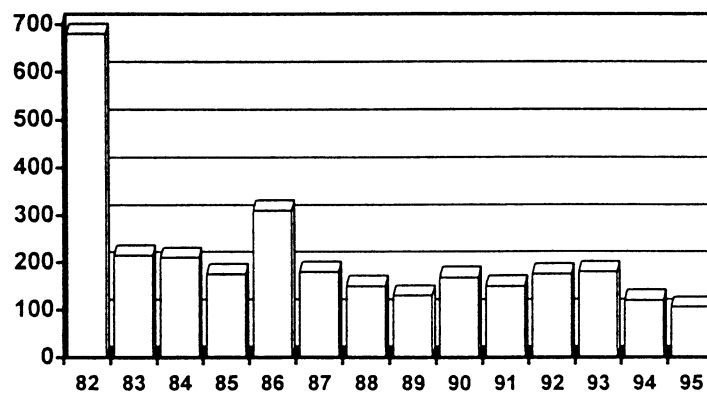
Source: Nominal Rates from Shwedel and Real Rates calculated

## Yearly Growth in Salaries (Minimum and Industrial Salaries)



Source: Shwedel

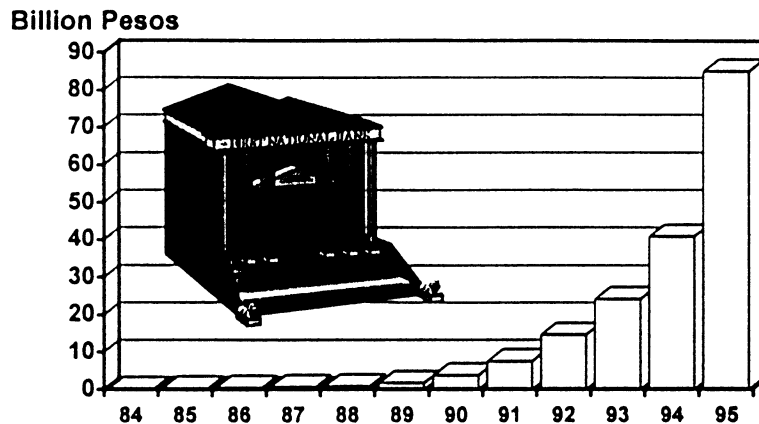
## Number of Strikes



Source: Shwedel



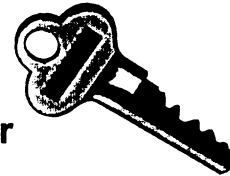
# Over Due Loans in the Commercial Banking System



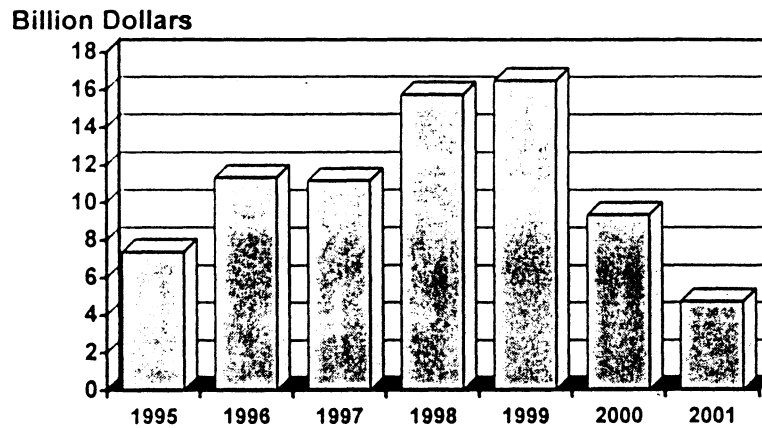
Source: Shwedel

## Key Indicators of the Foreign Debt

- ◆ Total \$170.4 Billion
  - 41.7 Short Term
  - 102.4 Billion is Public Sector
  - 20.8 Billion Bank Debt
  - 30.3 Billion Private Sector Non-Bank Debt
- ◆ Interest Payments Around \$13.9 Billion
- ◆ Total Debt Grew from \$162.6 to \$170.4 in 1995 - Public Sector Fell \$3.4 Billion
- ◆ Debt Represents Approx. 214% of the Value of Exports (L.A. Average = 221%)

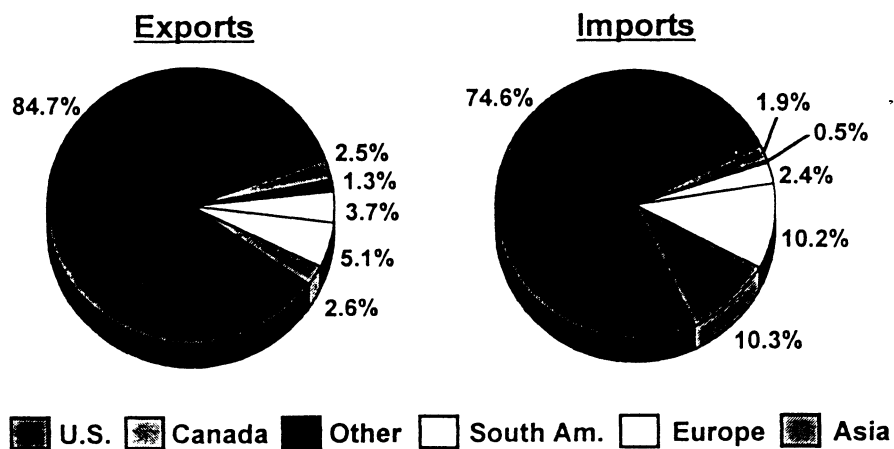


# Public Sector Debt Repayment Program



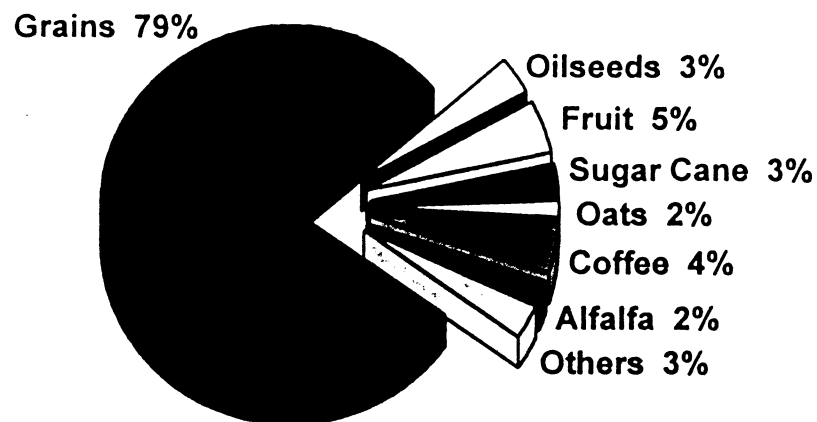
Source: Shwedel

## Share of Mexico's Trade by Regions: 1995



Source: Shwedel

## Agriculture Land Use in Mexico (Land Planted in 1994)



Source: Shwedel

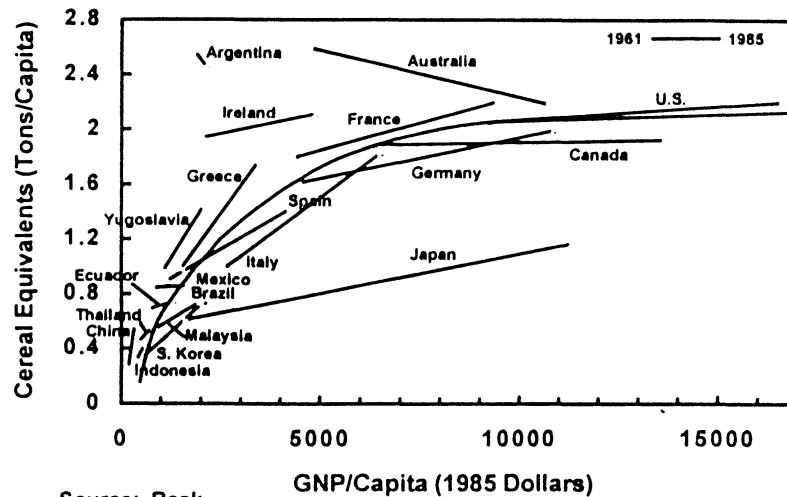


## Yields of Major Grains and Oilseeds (Metric Tons per Hectarea)

	U.S.A.	Mexico
Soybeans	2.8	1.8
Corn	8.7	2.4
Wheat	2.5	4.4
Beans	1.8	0.7

Source: Shwedel

## Food Consumption and Income 1961-1985



## Economic Outlook for 1996

	Government Program	Likely
Growth	3.0	2.1
Inflation	20.5	29
Exchange Rate	7.7	8.9
Current Account	-1.0	-1.4
Trade Balance	8.3	8.0
Cetes	25.64	33

Source: Shwedel

## Mexican Feed Compounder: Corn Import Example

### Exchange Rates, Corn Prices and Feed Costs

Year	U.S. Farm Price Corn	Exchange Rate	U. S. Farm Price in Mexican Pesos*	Mexican Farm Price of Corn
<b>Before Pesos Crisis</b>				
1994	\$ 2.26/bu. \$ ____/MT	P\$ 3.37/U.S.\$1	P\$ ____/MT	P\$ 650/MT
<b>After December 1994 de-valuation</b>				
1996	\$ 2.90/bu. \$ ____/MT	P\$ 7.62/U.S.\$1	P\$ ____/MT	P\$ 1300/MT

1 metric ton (2,204 lbs.) of corn equals 39.4 bu.

1 metric ton of wheat or soybeans equals 36.7 bu.

\* Transport costs add about US\$ 12 to 14/MT from Indiana or Ohio to Gulf ports and from U.S. Gulf ports to Mexican Gulf ports add another US\$ 12 to 14/MT.

\* Rail rates from Kansas City to the border add about US\$ 25/MT.

## **Discussion of Prospects for Future Economic Growth**

Prospects for future growth are favorable if Mexico has the political will to continue the austerity program of Zedillo's government during the 'adjustment period' to an open, free market economy. This includes:

- ◆ Tight monetary and fiscal policy
  - ◆ Low inflation rates
  - ◆ Continued cooperation between organized labor and industry to hold wage increases below the inflation rate
  - ◆ An export led growth strategy, reduced imports, and increased foreign direct investment
  - ◆ Solving the banking crisis
  - ◆ De-regulation of markets and reduction of government subsidies (tortilla subsidy etc.)
  - ◆ Privatization of key sectors such as banking, railroads, ports, airports, water and sewer systems, energy production and distribution, and telecommunications
  - ◆ Reduction of poverty
  - ◆ Other
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